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#### DEPARTMENT OF EDUCATION

Notice inviting guaranty agencies to submit requests to participate in a Voluntary Flexible Agreement

AGENCY: Office of Postsecondary Education, Department of Education.

ACTION: Notice.

SUMMARY: The Secretary invites guaranty agencies with agreements to participate in the Federal Family Education Loan (FFEL) Program to submit requests to enter into a Voluntary Flexible Agreement (VFA) with the Secretary, as authorized by the Higher Education Act of 1965, as amended (HEA). Guaranty agencies whose requests are accepted will operate under the requirements of the VFA in lieu of the guaranty agency agreements established under the HEA.

The Secretary intends to enter into VFAs with a small number of guaranty agencies (likely three or fewer) that will assume responsibility for all or some of the defaulted and non-defaulted FFEL Program loans transferred to it by the Secretary from a guaranty agency whose HEA agreements with the Secretary are, or will be, terminated. Those agencies will continue to operate under their existing guaranty agency agreements, established under the HEA, for their own FFEL Program Loan portfolios.

DATES: Deadline for submission of a Request for a VFA:

[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN THE
FEDERAL REGISTER].

ADDRESSES: A Request for a VFA must be submitted via email to the following e-mail address: vfateam@ed.gov.

Instructions for Submitting a Request for a VFA: A guaranty agency that wants to request a VFA pursuant to this notice must submit to the Secretary a letter on the guaranty agency's letterhead, signed by the chief executive officer of the guaranty agency. The letter must include the name, mailing address, e-mail address, FAX number, and telephone number of a contact person at the guaranty agency. The guaranty agency must also submit, as attachments to the letter, information addressing required capacities and expertise as described in the Agency

Demonstrated Performance section of this notice.

The letter and attachments are to be submitted as an Adobe Portable Document (PDF) attachment to an e-mail message sent to the e-mail address provided in the ADDRESSES section of this notice. The "Subject" line of the e-mail must read "Request for a VFA".

FOR FURTHER INFORMATION CONTACT: E-mail:

VFATeam@ed.gov; Telephone: (202) 377-4401.

If you use a telecommunications device for the deaf (TDD) or a text telephone (TTY), call the Federal Relay Service (FRS), toll free, at 1-800-877-8339.

# Voluntary Flexible Agreements

SUPPLEMENTAL INFORMATION:

Under section 428(b) and (c) of the HEA, guaranty agencies perform certain roles in the FFEL Program pursuant to agreements with the Secretary. Section 428A of the HEA authorizes the Secretary to enter into VFAs with guaranty agencies in lieu of the agreements entered into under section 428(b) and (c) of the HEA. This authority allows the Secretary to work with quaranty agencies to develop, utilize, and evaluate alternate ways of ensuring that the responsibilities of the quaranty agencies are fulfilled in the most cost-effective and efficient manner possible. VFA may provide that the quaranty agency will earn revenues and fees in a manner different than that provided under the regular guaranty agency agreements under section 428(b) and (c) of the HEA. The overall cost to the Federal government of a VFA cannot exceed the cost to the government under the regular quaranty agency agreements.

As part of a VFA with a guaranty agency, the Secretary may waive or modify statutory and regulatory requirements as necessary, except that the Secretary may not waive any

statutory requirements related to the terms and conditions attached to student loans or to default claim amounts paid to FFEL Program lenders.

A VFA will also specify the circumstances under which it may be terminated by the Secretary in advance of any established termination date and any other provisions the Secretary believes are necessary to protect the United States from unreasonable risk of loss.

## Earlier VFA Solicitation

In a Federal Register notice published on May 31, 2011 (76 FR 31312), the Secretary solicited proposals from guaranty agencies that wished to be considered for participation in a specialized VFA. The Secretary requested those proposals because of the then-recent significant statutory changes to the FFEL Program. Those changes included: the Ensuring Continued Access to Student Loan Act of 2008, as amended (Pub.L. 110-227) (ECASLA), which authorized the Secretary to create programs to allow FFEL Program loan holders to sell certain FFEL Program loans to the Secretary; and the SAFRA Act, part of the Health Care and Education Reconciliation Act of 2010 (Pub.L. 111-152), that ended, as of July 1, 2010, the authority to originate FFEL Program loans. As a result of ECASLA and the SAFRA Act, the total dollar amount of FFEL

Program loans held or insured by guaranty agencies has diminished (and will continue to diminish), resulting in less revenue available to the agencies and jeopardizing their ability to meet their FFEL Program responsibilities.

The purpose of the Secretary's 2011 VFA solicitation was to establish new guaranty agency structures and financing mechanisms to protect the Federal fiscal interest in light of the diminishing outstanding FFEL Program portfolio. The Secretary also expected that the VFAs would help ensure that guaranty agencies were able to continue to provide high quality services to borrowers, lenders, and postsecondary educational institutions while also supporting the important responsibilities that the agencies have in the areas of default prevention, outreach, and oversight.

After reviewing the proposals submitted by guaranty agencies in response to the May 31, 2011, Federal Register notice, the Secretary determined that the proposals did not meet the stated objectives for the VFAs, nor were they responsive to the specific proposal requirements included in the May 31, 2011, notice. For these reasons, the Secretary has decided that the VFA approach proposed in 2011 is no longer a viable response to the significant changes to the FFEL Program, and that it is appropriate to

develop VFAs that better address the current status of the program and the evolving structure of the guaranty agency component of the FFEL Program.

### Reasons for this Solicitation

As noted, certain statutory changes have reduced, and will continue to reduce, the revenues available to guaranty agencies. The Secretary expects that over the next several years, a number of guaranty agencies may choose to end their participation in the FFEL Program. It is also possible that, as a result of required oversight and monitoring of guaranty agencies' finances and operations, the Secretary may determine that it is necessary to terminate an agency's agreements under HEA section 428(b) and (c). Since 1990, 20 guaranty agencies have left the FFEL Program for a variety of reasons. In most of these situations, the Department has, working with the closing agency, arranged with another guaranty agency to assume all or part of the closing agency's FFEL Program responsibilities.

In light of the increasing likelihood that additional guaranty agencies will close as the FFEL Program loan portfolio is retired, the Secretary believes that a structured and predictable process should be developed and implemented to protect the integrity of the outstanding

FFEL Program loan portfolio. Thus, the Secretary has decided to establish VFAs with a small number of guaranty agencies (likely three or fewer), each of which would, upon the request of the Secretary, assume responsibility of some or all of a terminating guaranty agency's defaulted and non-defaulted loans.

## Scope of the VFAs

When a guaranty agency's participation in the FFEL Program ends, the Department may arrange for the transfer of all or some of the outstanding non-defaulted FFEL Program loans, and all or some of the defaulted loan portfolio of the terminating agency, to one or more of the guaranty agencies participating under a VFA established pursuant to this notice (a VFA participating guaranty agency). Under the VFA, the Secretary would retain discretion in deciding which VFA participating guaranty agency or agencies, if any, will be responsible for a closing agency's portfolio.

A transfer of the FFEL Program portfolio from a terminating agency to a VFA participating guaranty agency will ensure that FFEL Program lenders that hold outstanding FFEL loans guaranteed by the terminating agency will retain the benefit of those guarantees and that the borrowers of those loans will continue to receive the services of a

guaranty agency in accordance with statutory and regulatory requirements. Similarly, the transfer of defaulted loans on which the Secretary previously paid the terminating agency reinsurance pursuant to section 428(c) of the HEA to a VFA participating guaranty agency will ensure continued servicing and collection activities on those loans as required by the HEA and the Department's regulations.

#### Duration of the VFA

The Secretary expects that VFAs entered into as a result of this notice will be established for a period of four years with the possibility, if both parties agree, of year-to-year renewals at the end of the four-year period. The VFA will provide that the guaranty agency may not terminate the VFA early without requesting and receiving the Secretary's approval to do so. However, the VFA will also provide that, to protect the interests of Federal taxpayers, borrowers, and FFEL Program loan holders, the Secretary may terminate the VFA at any time and may do so without any advance notification to the agency. If a VFA is terminated, the Secretary will have sole discretion to determine the disposition of the loans assigned to the agency under the VFA.

#### Duration of Loan Transfer:

The Secretary will assign the VFA participating quaranty agency responsibility for a loan transferred from a terminating agency for a minimum of two years from the date when the VFA participating quaranty agency, at the direction of the Secretary, assumes legal responsibility for the loan. The transferred loans may be defaulted loans or non-defaulted quaranteed loans. The VFA will also provide that for a transferred non-defaulted loan that subsequently defaults, the two-year period may be extended for up to three months if the VFA participating quaranty agency would otherwise be unable to perform the activities required under 34 CFR 682.410(b)(6)(ii). Notwithstanding the above, defaulted loans serviced by the VFA participating guaranty agency are subject to the requirements of 34 CFR 682.409 governing mandatory assignment by quaranty agencies of defaulted loans to the Secretary if they meet the criteria for such assignment.

After the end of the two-year period, the Secretary may direct the VFA participating guaranty agency to assign defaulted loans to the Secretary or to another guaranty agency for continued collections, and to transfer the guarantee on a non-defaulted loan.

### Operating Under a VFA:

A guaranty agency that enters into a VFA with the Secretary as described in this notice will operate under the VFA only for the loans transferred to it by the Secretary under the terms of the VFA. The agency will continue to operate under its existing guaranty agency agreements, established under section 428(b) and (c) of the HEA, for purposes of its own FFEL Program loan portfolio. Accordingly, the VFA will require the agency to maintain records on the transferred loans separately from the loans it holds or has guaranteed on its own behalf.

The terms of any VFA will be subject to any changes in the HEA (or other applicable laws) and the Department's regulations, unless waived or modified by the Secretary, and to any applicable administrative actions of the Secretary.

## Agency Demonstrated Performance:

The Secretary will choose the agencies with which to enter into a VFA pursuant to this notice by identifying those agencies that best demonstrate that they have the managerial and operational capacity, including significant and demonstrable scalability in their management, finances, systems, and infrastructure, to assume the responsibilities of an expanded loan portfolio.

A guaranty agency that requests to enter into a VFA with the Secretary pursuant to this notice must provide the Secretary, in the format described in the <u>Instructions for Submitting a Request for a VFA</u> section of this notice, detailed information that demonstrates that it has the necessary capacity and expertise in at least the following areas:

- Lender Oversight The expertise and capacity to perform lender and lender servicer oversight in an efficient and cost-effective manner for an expanded loan portfolio.
- Default Aversion and Prevention A fully developed and successful delinquency and default prevention program that is scalable to support an expanded portfolio of non-defaulted loans transferred to it under the VFA.
- Outreach and Financial Literacy A fully developed and successful outreach and financial literacy program that is scalable to support an expanded portfolio of non-defaulted loans transferred to it under the VFA.
- Lender Claims Review Scalability in operations and management to perform timely, accurate, and comprehensive lender claims review for an expanded loan portfolio.

- Claims Payment The financial and operational capability to make timely, accurate, and reconcilable lender claim payments and reinsurance requests for an expanded loan portfolio.
- Collections Demonstrated success and scalability in the collection of defaulted loans, including a successful loan rehabilitation program.
- Financial Reporting The capability to provide accurate and timely required reports to the Secretary, both for its regular agency reporting and for the special reporting required under the VFA.
- National Student Loan System (NSLDS) Demonstrated capacity to fulfill all current NSLDS reporting requirements in a timely and accurate manner and the systems flexibilities to provide any additional NSLDS reporting that may be required under the VFA.
- Assignment of Loans to the Secretary The operational and financial processes necessary to assign an increased number of defaulted loans to the Secretary.
- FISMA Compliance Proof of FISMA compliance based on applicable information technology (IT) security standards and guidelines established by the National Institute of Standards and Technology (NIST).

### Secretary's Oversight

The Secretary will conduct additional oversight and monitoring of the activities of VFA participating guaranty agencies to assess each agency's continuing financial viability and operational capacity to properly perform all FFEL Program guaranty agency responsibilities, including the added responsibilities assigned to it under the VFA. This oversight will include, at a minimum, requirements that the guaranty agency submit operational status reports, financial reports, and performance metrics on the portfolio assigned to it under the VFA.

#### Schedule of Revenues and Fees

The Secretary expects that the increased number of defaulted loans on which a VFA participating guaranty agency will collect will result in financial savings from economies of scale and increased efficiencies. In addition, the VFA participating guaranty agencies will earn increased revenues from Account Maintenance Fees (AMF) and Default Aversion Fees (DAF) on the increased number of non-defaulted loans for which the agency has assumed guarantor responsibility.

As noted in the <u>Voluntary Flexible Agreements</u> section of this notice, a VFA may provide that a guaranty agency will earn revenues and fees differently than it would under agreements pursuant to section 428(b) and (c) of the HEA.

Therefore, VFAs developed as a result of this notice will include a revised schedule of revenues and fees that will apply to loans transferred to the VFA participating guaranty agency pursuant to the VFA. The revised schedule, which will be common to all VFA participating guaranty agencies, will result in lower costs to the Secretary.

Under the revised schedule, the VFA participating guaranty agency will receive the regular AMF rate calculated under 34 CFR 682.404(i) and DAF calculated under 34 CFR 682.404(k)(2). The schedule will provide that the agency will retain 100 percent of collection costs paid by borrowers on defaulted loans, capped at current regulatory limits. However, the revised schedule will provide that, except on loans which have been rehabilitated under 34 CFR 682.405, the Secretary's share of total collections of principal and interest is 100 percent. For loans that have been rehabilitated, the Secretary's share will be 93 percent.

### Letters of Request for a VFA

Guaranty agencies with agreements with the Secretary under section 428(b) and (c) of the HEA that wish to enter into a VFA under the terms outlined in this notice must submit a written "Request for a VFA" by the deadline in the DATES section of this notice and in the format described in

the <u>Instructions for Submitting a Request for a VFA</u> section of this notice.

# Information to be Included with the Request for a VFA

A Request for a VFA must include information addressing the guaranty agency's capacity to perform each of the activities discussed in the Agency Demonstrated Performance section of this notice. The information should be submitted as an attachment to the agency's Request for a VFA letter and be in the form of a bulleted narrative that totals no more than 10 pages. The Secretary may request that the agency provide supporting or other documentation to assist the Secretary in making a decision regarding the agency's possible participation in a VFA.

## Availability of Letters of Request for Consideration

Requests for a VFA submitted to the Secretary in response to this notice will generally be considered public documents.

#### Selection

The Secretary will review and evaluate an agency's Request for a VFA letter, the accompanying supporting documentation, and other relevant information (e.g., financial information, audit and program review results, and any relevant public information about the agency and its management) that is available to the Secretary. The

guaranty agencies that will be offered the opportunity to enter into a VFA as described in this notice will be those that the Secretary determines best demonstrate their capability to perform the responsibilities under the VFA.

Accessible Format: Individuals with disabilities can obtain this document in an accessible format (e.g., braille, large print, audiotape, or compact disc) on request to the contact listed above.

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1087aa-1087ii; 42 U.S.C. 2751-2756b.

Dated: August 9, 2013

Brenda Dann-Messier,
Assistant Secretary for Vocational and Adult
Education, delegated the authority to
perform the functions and duties of the
Assistant Secretary for Postsecondary
Education.

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